

Testimony of Mark H. Brown  
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AAA

Before the  
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**Introduction**

On behalf of AAA, thank you for the opportunity to testify today on the status of the travel agent industry. My name is Mark Brown, and I am the Executive Vice President for Association and Club Services at AAA. In that capacity, I oversee travel services operations at AAA's National Office in Orlando, Florida, and am responsible for implementing the overall strategic direction for AAA's travel services operations.

I am pleased to be here today because I believe AAA can provide a unique perspective on the travel business. We are first, and foremost, a membership organization and we strive to represent the best interests of our members and consumers. We are also a major provider of travel services.

By way of background, AAA is a not-for-profit, fully tax-paying federation of 80 clubs with over 1,100 office locations in the United States and Canada. Collectively, AAA Travel is the largest leisure travel agency in the United States with sales of over \$3.4 billion annually. As North America's largest motoring and leisure travel organization, AAA and our counterpart in Canada (CAA) provides its 45 million members with travel, insurance, financial, and automotive-related services. Since its founding in 1902, AAA has also been a leader and advocate for the safety and security of all travelers.

As a federation, AAA travel agencies are comprised of primarily small- to medium-sized businesses that provide a valuable service at a reasonable price. We provide travel services via office locations, telephone centers and on the Internet site, [aaa.com](http://aaa.com). And, we operate in communities across the country. Just last year AAA clubs sold more than \$850 million in airline tickets to over 3 million travelers.

**Testimony Overview**

It is our understanding that Congress created this Commission to gain a better understanding of the travel agency business and how changes in our industry will affect the traveling public. And, they want the Commission to provide recommendations to ensure that consumers have access to the unbiased information they need to make their travel decisions. My statement will seek to provide AAA's perspective on the nature of the travel business. Make no mistake about it:

- The decision by the airlines to eliminate travel agency commissions is a bad one for travelers. It leaves them at the mercy of technology that many distrust, refuse to utilize, or forces them into a maze of endless telephone calls to travel carriers to compare prices and travel schedules.

- Large, diversified organizations like AAA will survive, and we will adapt to a changing travel environment. Many smaller travel agencies will not. That's not good for the economy, and it's not good for consumers.
- As a result of this new environment, travel agencies are at a competitive disadvantage to on-line reservation systems and to airline carriers. Airlines, in particular, are able to manipulate seat availability and prices to their advantage. Service is lost in the equation as travel agents are elbowed out. Let's face it: this is bad for the economy; it's bad to travel agencies; and, is bad for consumers.

Permit me now to expand on these realities of today's travel environment.

### **Serving the Customer in a Changed Travel Environment**

The travel and tourism landscape has changed dramatically since this Commission was authorized two years ago. The tragic events of September 11—which forced many Americans to reassess how, where and when they travel—the economic downturn, the growth of Internet travel companies and recent airline commission cuts have all affected how travel professionals do their jobs.

In addition to the financial impact of the elimination of commissions, recent events have forced travel agents to adapt to a new market, in some ways competing with one hand tied behind their backs. Travel agents provide an important service to a large segment of the traveling public, and the interests of these consumers should not be ignored as the market changes. The true consequences of the shortened distribution chain that results when travel agents are removed from the travel product delivery process remain to be seen, and should be carefully examined.

As one of the nation's largest travel organizations, AAA is concerned about the impact of these dramatic changes on the millions of consumers who traditionally rely on travel agents to help them with their travel plans. While some consumers are comfortable making arrangements directly with the airlines or through the Internet, many continue to rely on travel agents for unbiased information and expertise when planning trips.

Moreover, the majority of our members do not have access to a corporate travel agent who, on occasion, might handle a leisure or vacation booking as a perk through the workplace. As a principally leisure organization, AAA provides those vacation travel services to our members and to consumers at large.

AAA's business is providing quality service to our members, and through our travel agencies, to the public. That means helping customers make travel arrangements that fit their schedules, budgets and special needs, and looking out for them when things go wrong.

That can be as simple as helping them with an overnight stay; or something more complicated, like helping them sort through all the options and important fine print in planning an extensive vacation. It can also be something as essential as getting them home safely when things unravel during a disaster situation such as this country experienced last September.

Under ideal conditions—meaning a strong economy and a favorable environment for safe travel—travel agencies that *by nature of the industry operate on slim profit margins* could continue to stay in business.

When either of those conditions changes significantly, only the stronger agencies survive. But when both conditions change, and on top of that, the whole mechanism or structure of the business changes, even the strong agencies are threatened.

### **Key Challenges Confronting the Industry**

Consider the first major shift in the industry that began last year—commission cuts:

- In 2001, 28% of AAA's gross sales stemmed from selling airline tickets, down from over 55% in 1995 when the first major reduction in commissions occurred. (Important note: most other travel agencies have a much higher percentage attributed to air sales than AAA.)
- In 2001, nearly 15% of AAA Travel's gross income was from airline commissions.
- On March 15, 2002, the major airlines eliminated up-front commissions on domestic airline tickets. This loss of air commission represents 10% of AAA Travel's gross income, which will be very difficult to replace in these difficult economic times. This action is estimated to put an estimated 5,000 agencies (20%) out of the travel business<sup>1</sup>.
- AAA agencies fared better than many others did because we have diversified business lines that feed into the travel agencies that can take up some of the slack, but we are unique in that capability.
- Agencies selling less than \$1 million in air were more affected—40% of AAA Clubs that had airline sales of less than \$1 million lost money in 2001.

Next, consider the soft economy, which hit the travel agency community particularly hard because, while travel is a high demand, high transaction industry, it is also one of slim operating budgets and low profit margins.

2001 was not a good year for many travel suppliers, a number of whom either defaulted on booked business or filed for bankruptcy. The closure of Kingdom Vacations and the bankruptcy of American Classic Voyages cost AAA Travel more than \$2.5 million. Travel sales overall for 2001 were down 8.6%.

Already reeling from the loss of air commission income, agencies now had to deal with loss of income from booked travel that had to be taken off the books, and also had to deal with covering reimbursement to consumers, often made as a goodwill effort against keeping those consumers as clients. Few, if any, travel insurance policies for consumers fully cover events like supplier default or bankruptcy.

On the heels of an already soft year for travel, the effects of 9/11 were the final blow for many travel agencies.

In the first full month after the attacks, AAA Travel's total sales dropped 34%, with air sales dropping 38% in what is typically a soft season for travel. With airline reservation call centers jammed with callers and horrendously long lines at airports—AAA and other U.S. agencies

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<sup>1</sup> According to ASTA's Richard Copeland.

refunded or changed millions of tickets and got hundreds of thousands of stranded travelers home.

Because travel agencies sell approximately 70% of all airline tickets, the existing infrastructure of airline call centers, ticket offices and Web sites could not even begin to handle the volume of customers if travel agencies no longer dealt in airline tickets. *This became very evident in the aftermath of September 11.*

Now, enter the newest factor in the equation—online access to travel transactions via the airline owned travel site Orbitz.

At first blush, the consumer appears to be the big winner here—low air fares, multiple choices, etc. However, is the consumer really coming out ahead?

During the first three months of 2002, Orbitz sold over \$500 million in airline tickets using the lure of Internet-only fares to move this business from other airlines and agencies that did not have access to these fares.

It is expected that Orbitz will sell more than \$2 billion in air tickets during 2002, largely using the pricing advantage provided by their airline owners to draw in new business.

Moves of this nature will ultimately make it impossible for retail and on-line travel agents to effectively compete in this marketplace. Without competitive access to fares and inventory, travel agents will be forced to withdraw from the market, or turn their business over to Orbitz. Either way, the predatory pricing tactics will eliminate the only provider of fair and unbiased information—the travel agent.

### **Other restrictive aspects of the travel agency environment**

Let me be specific.

- Travel agents have access to air fares listed in the various CRS systems which are in some cases owned by the airlines. Because the major airlines look to disintermediate from the major CRS systems, they will reduce inventory through these distribution systems to drive business to their other channels.
- Agents do not have access to the same fares as are listed on Orbitz, fares that the participating airlines can dump as distressed inventory at very favorable prices.
- The consumer is thus encouraged—by default—to go it alone on these Internet sites if he/she is determined to find what may, or may not be, a bargain flight.
- If agents had access to those same fares, they not only could provide more complete options for consumers, but also could advise them of other options, which may be more favorable to their desired schedule or special needs.

The bottom line is that there are fewer and leaner financial incentives for agencies to continue to serve the traveling public—a public that has a high demand for travel services. The implementation of service fees is not enough to make up for lost income. The additional fees make the agency uncompetitive with airline-direct prices. In addition, when the major airlines

eliminated domestic commissions on March 15, 2002, no mechanisms were available for travel agents to “build in” the service fees.

Forty-six percent of the US population does not use Internet. And, for the first time in 21 years, the growth of the U.S households with Internet access dipped .3 percent to 68.5 million in the first quarter of 2002.<sup>2</sup> These consumers should not be prevented from getting the best available prices and inventory.<sup>3</sup>

Airline Web sites or airline owned Web sites do not provide the consumer with the ability to comparison shop. The travel agent assists the consumer with schedule and vendor selection as well as searches for the best available rate.

The airline seat has become a commodity in recent years. All other airlines immediately match fare changes implemented by one airline. Fares can often change several times a day, as can restrictions and the availability of discount inventory.

While on-line booking sites have allowed consumers the ability to “do it yourself”, the infrequent traveler has difficulty with the complex shopping and buying process. Airline pricing is still very complex and illogical with hundreds of fares with varying restrictions for each route. A travel agent serves as an objective source for consumers to help them sort through the complex transaction.

### **AAA’s Position and Recommendations**

AAA believes that all distribution channels, including travel agents, should have fair access to all fares and inventory sold by the airlines to the public. The decision by the airlines to reduce travel agency commissions to zero was a bad one for travelers. The action raised the cost of airline tickets for travelers, because without airline commissions travel agents had to raise fees to cover their costs. Additionally, the airlines have shifted the distribution to the consumer without reducing the fare and are jeopardizing a distribution channel that consumers value.

To continue to offer the consumer an independent source of comparative price and service information, AAA would like to see the antiquated agency compensation model modernized to include the following:

- Fair access to airline inventory and pricing, regardless of channel. Preference should not be given to certain organizations or companies by limiting access to inventory and pricing.
- A Ticket Processing Fee (TPC) included on standard traffic documents which requires unanimous consent of all International Air Travel Association (IATA) members.

### **Conclusions**

A consumer buying a gallon of milk is not charged one price for what the dairy sold the milk for and one price for what it cost for the grocer to stock and to sell the milk. The grocer establishes the price based on their cost of sale and cost of goods sold. Hopefully, there is a little profit built into the price.

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<sup>2</sup> *Hone Net Access Slips for the First Time*, by Jon Swartz, USA TODAY, San Francisco;

<sup>3</sup> *A Nation Online: How Americans Are Using the Internet*, published in February 2002 by the National Telecommunications and Information Administration and the Economics and Statistics Administration, U.S. Department of Commerce

With the sale of the airline ticket, the customer is charged the retail price for the ticket and then a separate fee for selling the ticket. The cost of distribution is shifted to the consumer, yet the airline still charges relatively the same price for the ticket if bought direct. Price wise, the travel agent is no longer price competitive.

Without fair access to all fares and inventory sold by the airlines to the public, the only unbiased source of comparative price and service information, the travel agency, is likely to disappear.

The absence of travel agent and agencies, which today currently sell approximately seventy percent of all airline tickets, will greatly limit the consumer's ability to make an informed choice and derive the best value from the existing U.S. air transportation system. This will have a negative affect on consumers who rely on agents to be an unbiased source of information and provide a valuable service at a reasonable price.